

March 2, 2006

The Honorable Public Utilities Commission  
of the State of Hawaii  
Kekuanao'a Building, First Floor  
465 South King Street  
Honolulu, Hawaii 96813

PUBLIC UTILITIES  
COMMISSION

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Re: Ethanol Presentations in Docket No. 05-0002

To the Honorable Public Utilities Commission of the State of Hawaii:

On January 4, 2005, the Public Utilities Commission of the State of Hawaii ("Commission") instituted an investigation in Docket No. 05-0002 ("Docket") to examine the issues and requirements raised by, and contained in, Hawaii Revised Statutes ("HRS") Chapter 486H, as amended. In light of the nature and scope of this investigation and to assist in the development of a sound record in this proceeding, the Commission made the two Hawaii refiners Tesoro Hawaii Corporation ("Tesoro") and Chevron U.S.A. Inc. ("Chevron") parties to this proceeding. Pursuant to Hawaii Administrative Rules ("HAR") § 6-61-62, the Division of Consumer Advocacy, Department of Commerce and Consumer Affairs ("Consumer Advocate"), is an *ex officio* party to this proceeding. By Order No. 21579, filed on February 2, 2005, the Commission granted Shell Oil Company's ("Shell") and Hawaii Petroleum Marketers Association's ("HPMA") motions to intervene in this proceeding. Shell, HPMA, Tesoro, and Chevron are collectively referred to herein as the "Parties" and individually as "Party".

The Commission retained professional consultants, ICF Associates, LLC, a consulting member company to ICF Consulting ("ICF"), to assist the Commission in its investigation in this matter. On April 15, 2005, ICF issued its report entitled "Implementation Recommendations for Hawaii Revised Statutes Chapter 486H, Gasoline Price Cap Legislation" (the "Report"). On August 1, 2005, the Commission issued Decision and Order No. 21952 noting that "compounding the uncertainty of the gas price cap impacts are State ethanol blending mandates that go into effect in April 2006." The Commission cited ICF's statement in the Report that the impacts of ethanol blending are clearly a factor which may need to be considered by the Commission in future gas cap administration. The Commission further noted that ICF also expressed concerns that "marketers, refiners, and consumers in Hawaii may be approaching a confluence of regulatory actions involving both the gas caps and ethanol which will likely create high business and capital investment uncertainty, as well as possible supply concerns." In view of its findings, by Order No. 22056, filed on September 28, 2005, the Commission ordered each of the Parties to "submit a proposal to adjust the HRS § 486H-13 factors to include the addition of ethanol blending requirements, which will take effect on or about April 2006."

As set forth in the Commission's letter to the Parties dated March 2, 2006 (the "Commission's Letter"), on December 22, 2005, the Commission issued information

requests ("IRs") regarding ethanol blending to the Parties. On January 20, 2006, Chevron, through its counsel, proposed that the Parties be given an opportunity to make presentations to the Commission on issues related to ethanol blending that could not readily be conveyed in the IR process. The Commission's Letter states that these presentations would be for the limited purpose of providing the Parties with an opportunity to explain their individual approaches to the ethanol mandate issue in a confidential setting. The Commission agreed that it would permit these presentations so long as the following requirements were met: (1) that no objections were voiced by any of the Parties, and (2) that a protective order, if necessary, would be executed. The Commission's Letter notes further that (1) HAR § 6-61-29, *Ex parte communications*, prohibits *ex parte* communications in a contested case proceeding; (2) *In re Pub. Util. Comm'n*, No. 27496, slip op. at 1-2 (Haw. S.Ct. Jan. 23, 2006) determined that Docket No. 05-0002 is not a contested case; and (3) the ethanol presentations would not be *ex parte* communications under the Commission's administrative rules. However, in an abundance of caution, each of the Parties will be executing a letter waiving any and all argument that these presentations constitute prohibited communications.

In view of the above, the Parties are also concerned that joint presentations involving all of the Parties may encroach upon, or at least have the appearance and perception of impinging upon, antitrust matters, Sarbanes-Oxley compliance matters, confidentiality matters, as well as other areas involving proprietary concerns. Thus, the Parties have agreed on the following recommendations that would substantially alleviate the Parties' concerns:

1. Each individual Party's presentation ("Individual Presentation(s)") shall be in accordance with the following schedule as set forth in the Commission's Letter:

Thursday, March 2, 2006, 1:00-1:45 p.m.: Mid Pac Petroleum, LLC  
Thursday, March 2, 2006, 2:00-2:45 p.m.: Aloha Petroleum Ltd.  
Friday, March 3, 2006, 1:00-3:00 p.m.: Chevron  
Friday, March 3, 2006, 3:00-4:30 p.m.: Tesoro

Provided that no significant activity has occurred in this proceeding that would materially disadvantage a Party that has already made its Individual Presentation, Shell may schedule an Individual Presentation, not to exceed two hours in duration, at the Commission's discretion and shall notify all Parties of its schedule at least two (2) days prior to such Individual Presentation.

2. A Party shall be permitted to have, in its reasonable discretion, those persons it desires to participate on its behalf at such Party's presentation. The Parties agree that the Individual Presentations will be attended only by the Party designated to meet at the time (and with respect to Shell, at such time as may be subsequently scheduled) specified in paragraph 1. above, ICF, the Consumer Advocate, the Chairman and Commissioners of the Commission,

Commission Staff and the Department of Business Economic Development and Tourism ("DBEDT"), provided, however, that each such individual has executed a protective agreement in Docket No. 05-0002 covering Confidential Information in the Individual Presentations pursuant to an applicable Protective Order issued by the Commission. The Parties' agreement shall not be construed as acceptance of, or a waiver of any rights to oppose or object to, DBEDT's continued participation either in this proceeding or in Commission decision-making in Docket No. 05-0002 following the Individual Presentations.

3. The Parties agree that a Party may allow participation by a Party's representative(s) and ICF by telephone conference.
4. The Parties agree that the scope of each Party's Individual Presentations shall be limited to the Commission's IRs regarding ethanol blending to such Party, issues related to ethanol blending that cannot readily be conveyed in the IR process, and an opportunity to explain such Party's individual approach to the ethanol mandate issue in a confidential setting. Each Party shall be permitted to respond orally, or in writing if requested by the Commission, to oral questions posed by the Commission or, in the Commission's discretion, oral questions from persons in attendance at the Individual Presentation other than representatives of the Party.
5. The Parties agree that to the extent that confidential information is covered under Protective Order No. 21669, and any other Protective Order that may be issued by the Commission covering the Individual Presentations, the Parties do not waive such confidentiality and in no event shall these Individual Presentations be considered a waiver of such confidentiality. In addition, the Parties agree that, to the maximum extent provided by law and under Protective Order No. 21669, and any other Protective Order that may be issued by the Commission covering the Individual Presentations, these Individual Presentations, shall also be subject to the confidentiality protection of Protective Order No. 21669, and any other Protective Order that may be issued by the Commission covering the Individual Presentations.
6. The Parties agree that they have all had adequate and appropriate notice and opportunity to participate in each and every one of the Individual Presentations but in light of the antitrust, Sarbanes-Oxley, confidentiality and other concerns briefly expressed above, the Parties agree to waive all *ex parte* rules with respect to these Individual Presentations including without limitation, Section 6-61-29 of the Rules of Practice and Procedure Before the Public Utilities Commission, Hawaii Administrative Rules, Title 6, Chapter 61.

7. The Parties agree that this agreement, dated March 2, 2006, may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

The Parties would be pleased to answer any questions that the Commission may have. Thank you for your time and consideration in this matter.

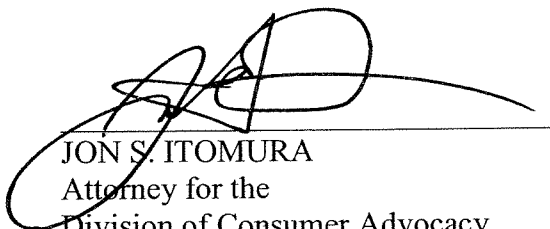
Sincerely,

**Chevron U.S.A. Inc.**



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**Division of Consumer Advocacy**



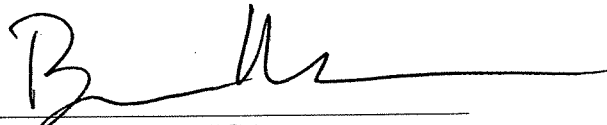
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**Tesoro Hawaii Corporation**



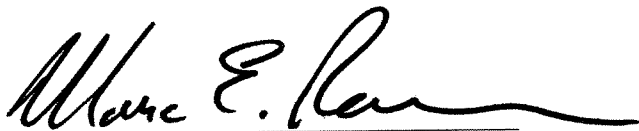
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